Centre City Development Corporation

DATE ISSUED:	April 19, 2006	REPORT NO. CCDC-06-11
ATTENTION	Honorable Chair and Members of the Redevelopment Agency Docket of April 25, 2006	
SUBJECT:	Broadway Lofts - Proposed Second Implementation Agreement with Watt Lofts, LLC (Assignee of Watt Commercial Enterprises, LLC) -1007 Fifth Avenue ("First National Bank Building") - Core Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project	
REFERENCE:	Attachment 1 - Proposed Second Implementation Agreement Attachment 2 - Memorandum from Keyser Marston and Associates ("KMA") dated February 13, 2006	

REQUESTED ACTION:
Redevelopment Agency approval of the proposed Second Implementation Agreement with Watt Lofts, LLC (Assignee of Watt Commercial Enterprises, LLC).

STAFF RECOMMENDATION:
That the Redevelopment Agency approve the proposed Second Implementation Agreement.

SUMMARY:

BACKGROUND

The Redevelopment Agency entered into a Disposition and Development Agreement (the "DDA") with Watt Commercial Enterprises, LLC (the "Developer") in July 2001 for the rehabilitation/adaptive reuse of the First National Bank building as ground floor retail/ commercial space and office space on floors 2 through 12. In March 2002 the Agency entered into an Implementation Agreement with the Developer which converted the use of the property from leased office space to leased residential live/work lofts on floors 2 through 12. Prior to consideration of the Implementation Agreement, the Purchase Price for the property had been reviewed to determine that the residual asset value of the property would not be increased by the permission to change the use to leased residential live/work lofts. The Implementation Agreement provided for changes to the DDA solely to conform to this change in use and to extend the Schedule of Performance.

DISCUSSION

As early as December 2003, the Developer was advised that the property could not be converted to a condominium use unless and until a change of use were approved by the Agency and the Purchase Price to be paid by the Developer were adjusted accordingly. The property was conveyed to the Developer in March 2004 pursuant to the First Implementation Agreement. The Developer continued its construction program and received a Release of Construction Covenants for its approximately 15,565 SF of retail/commercial space on the ground floor and basement, and 84 loft-style rental apartments in November 2005. The Developer and Centre City Development Corporation (CCDC) have concluded negotiations on the terms of a proposed Second Implementation Agreement.

The Second Implementation Agreement was developed taking into consideration information from the Developer, together with independent review of market conditions and analysis by Keyser Marston Associates ("KMA"). KMA's summary memorandum is included as Attachment 2. The principle behind the analysis is to compare "today's" residual value of the asset as 84 loft-style rental apartments, taking into account the Participation Agreement between the Developer and the Agency, versus the asset's residual value as 84 for-sale condominiums. The property is unique in the marketplace in that these are truly loft-style/open plan units within a historic property without parking.

TERMS OF THE PROPOSED SECOND IMPLEMENTATION AGREEMENT

The Second Implementation Agreement between the Agency the Developer would permit the conversion of 84 live/work lofts to for-sale condominiums. The Developer would pay an Adjusted Purchase Price to the Agency of $4,066,000, as follows:

An Initial Payment of $1 million would be paid to the Agency by the Developer at the Closing, which would be within 30 days of the Agency s execution of the Second Implementation Agreement. An Additional Payment of $3,066,000 would be paid to the Agency by the Developer as described below. The Closing would be handled by an escrow officer mutually acceptable to the Agency and Developer, and would include the occurrence of each of the following:

a. Developer's Initial Payment of $1 million into escrow, for payment to the Agency upon the Close of Escrow.

b. Agency's deposit into escrow of the Amended Grant Deed, for recordation upon the Close of Escrow.

c. Developer's deposit into escrow of a Promissory Note and Subordinated Deed of Trust (the "New Deed of Trust") for delivery and recordation, as applicable, upon the Close of Escrow:

(1) The Promissory Note will be in the amount of $3,066,000, to be paid to the Agency in installments of $36,500, payable at the earlier of: (a) the close of escrow for the sale of each of the 84 individual residential units (i.e., $36,500 x 84 = $3,066,000); or (b) the date that is 24 months after the Agency s execution of the Second Implementation Agreement in an amount equal to $36,500 multiplied by each unit that has not closed escrow and for which the Agency has not been paid $36,500 as of that date. As an example, if three units remain unsold/unconveyed after 24 months, the Developer shall immediately pay the Agency $109,500.

(2) The New Deed of Trust will be subordinate to Developer's construction financing plus an additional loan in an amount not to exceed $1,000,000 to finance the Initial Payment, marketing costs and to replenish an interest reserve, and will provide for partial reconveyance as to each unit upon its sale/conveyance to the buyer and concurrent payment of $36,500 to the Agency.

d. Delivery of the Certificate of Compliance (authorizing the subdivision of the property) into escrow or its recordation coordinated with the City of San Diego Department of Development Services by escrow.

e. Delivery into escrow of an agreement terminating the Participation Agreement, executed by Agency and Developer, to be delivered upon the Close of Escrow.

f. Delivery into escrow of a request for full reconveyance of the March 4, 2004 Subordinated Deed of Trust, executed by the Agency, to be recorded upon the Close of Escrow.

g. Each party to pay one-half of all escrow and closing cost.

ENVIRONMENTAL REVIEW

The rehabilitation and adaptive reuse of the First National Bank building is exempt from environmental review pursuant to CEQA guidelines. The building had been vacant for years prior to the commencement of construction and remains vacant.

FISCAL CONSIDERATIONS:
The proposed Second Implementation Agreement would permit the change of use of the subject property to residential condominiums. The business transaction would be altered to eliminate the Participation Agreement to the Agency which provided a 5% participation in Net Cash Flow (as defined) in the rental project to provide for an adjusted purchase price for the property of $4,066,000.

CENTRE CITY DEVELOPMENT CORPORATION ACTION:
On February 22, 2006, the Centre City Development Corporation Board of Directors approved with a 4-0 vote to recommend that the Redevelopment Agency approve the Second Implementation Agreement.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
On February 15, 2006, the Centre City Advisory Committee voted 22 in favor and 1 recused, and the Project Area Committee voted 22 in favor and 1 recused, to recommend approval of the proposed Second Implementation Agreement.

KEY STAKEHOLDERS:

ROLE/FIRM	**CONTACT**	**OWNED BY**
Developer: Watt Genton Associates, L.P., formerly known as WCE/Genton Associates Limited Partnership **Assignee of Developer:** Watt Lofts, LLC	Jonathan Genton Nadine Watt Jonathan Genton Nadine Watt	90% owned by Watt Family Properties, Inc. – private entity 10% owned by individual limited partner – private owner 100% owned by Watt/BSREF Broadway Lofts, L.P. – private entity Individuals which are reported to be part of these entities: James Scott Watt Janet Watt Van Huisen Radine Sally Alonso Jonathan Genton
Local Development Consultant and Sales: American National Investments	Gina Champion-Cain	Gina Champion-Cain

PROJECTED IMPACTS:

The proposed Second Implementation Agreement would permit the sale of the 84 live/work lofts at Broadway Lofts and provide additional compensation to the Agency in the amount of $4,066,000, $1 million paid at the Closing and $3,066,000 to be paid over not more than a 24-month period.

Respectfully submitted,

Pamela M. Hamilton	Nancy C. Graham
Senior Vice President	President

Attachments: Attachment 1 - Proposed Second Implementation Agreement
Attachment 2 - Memorandum from Keyser Marston and Associates ("KMA") dated February 13, 2006

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